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Message Text

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ACTION NEA-10

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C O N F I D E N T I A L SECTION 1 OF 2 COLOMBO 3326

E.O. 11652: GDS
TAGS: PFOR, CE

SUBJ: LETTER TO THE PRESIDENT FROM SRI LANKA PRIME MINISTER
J.R. JAYEWARDENE

REF: COLOMBO 3258

1. FOLLOWING IS FULL TEXT OF LETTER TO PRESIDENT CARTER BEING CARRIED BY FINANCE MINISTER DE MEL FOR PERSONAL DELIVERY TO VICE PRESIDENT MONDALE. FOREIGN MINISTRY PROVIDED US WITH COURTESY COPY 8 SEPTEMBER. OUR COMMENTS ON LETTER WILL FOLLOW SEPARATELY.

2. BEGIN TEXT. CONFIDENTIAL. 7 SEPTEMBER 1977. MY DEAR PRESIDENT, MY MINISTER OF FINANCE, MR. RONNIE DE MEL WILL BE VISITING YOURCOUNTRY FOR DISCUSSIONS WITH MEMBERS OF YOUR GOVERNMENT AS WELL AS WITH BUSINESS LEADERS ON MATTERS RE-LATING TO ECONOMIC CO-OPERATION BETWEEN OUR TWO COUNTRIES. I THOUGHT IT WOULD BE OF SOME HELP IF I WERE TO KEEP YOU INFORMED OF RECENT DEVELOPMENTS IN SRI LANKA AS A PRELUDE TO THESE DIS-CUSSIONS.

3. AS YOU KNOW, MY GOVERNMENT WAS RETURNED TO POWER AT THE GENERAL ELECTIONS HELD IN JULY THIS YEAR WITH A MAJORITY UN-PRECEDENTED IN THE PARLIAMENTARY HISTORY OF SRI LANKA. ONE OF THE MAJOR ISSUES IN THE ELECTION CAMPAIGN OF THE UNITED
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NATIONAL PARTY WAS A COMMITMENT TO RESOLVE THE ECONOMIC AND SOCIAL PROBLEMS OF THE PEOPLE OF MY COUNTRY. THE GRAVEST OF THESE IS THAT OF UNEMPLOYMENT, ESPECIALLY AMONG OUR HIGHLY LITERATE YOUTH - A PROBLEM BY NO MEANS CONFINED TO SRI LANKA.

4. THE GENERAL ELECTIONS IN SRI LANKA WERE ALSO A RE-AFFIR-MATION OF THE LONG-STANDING COMMITMENT OF OUR PEOPLE TO THE

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DEMOCRATIC PROCESS. IT IS MY GOVERNMENT'S FIRM INTENTION TO DEVELOP IN THIS COUNTRY A FREE AND JUST SOCIETY WHERE EVERY INDIVIDUAL IS ASSURED OF HIS LIBERTY AND PERSONAL FREEDOM IN THE CONTEXT OF AN INDEPENDENT JUDICIARY AND A FREE PRESS. I BELIEVE THAT THE MAINTENANCE OF SUCH A SOCIETY IS FUNDAMENTAL TO THE PRESERVATION OF HUMAN DIGNITY AND INDIVIDUAL FREEDOM.

5. MY GOVERNMENT HAS BOTH THE POLITICAL WILL AND THE POPULAR BACKING REQUIRED TO MAKE VERY HONEST ENDEAVOUR TO RESOLVE THE GRAVE ECONOMIC PROBLEMS FACING SRI LANKA AND WE ARE DETERMINED TO MOBILIZE OUR DOMESTIC RESOURCES TO THE FULLEST EXTENT POSSIBLE TOWARDS THIS END. MEASURES OF SELF HELP, HOWEVER, WILL PROVE EFFECTIVE LARGELY TO THE EXTENT TO WHICH THEY ARE REINFORCED BY THE AVAILABILITY OF ADEQUATE AND COMPLEMENTARY EXTERNAL RESOURCES. I AM HAPPY TO REPORT THAT WE HAVE INITIATED THE PROCESSES THAT ARE REQUIRED IN ALL THESE AREAS BY RECENTLY CONCLUDING A SET OF VERY SATISFACTORY DISCUSSIONS WITH THE I.M.F.

6. THESE DISCUSSIONS CENTRED AROUND A RESTRUCTURING OF ECONOMIC POLICIES WHICH MY GOVERNMENT INTENDS TO INTRODUCE IN THE NEAR FUTURE. THE MEASURES UNDER CONSIDERATION ARE DESIGNED TO ELIMINATE OUR RESTRICTIVE AND COMPLEX EXCHANGE SYSTEMS, GIVING INCENTIVES FOR EXPORTS AND LIBERALIZATION OF IMPORTS. WE ALSO INTEND TO PHASE OUT FOOD SUBSIDIES WITHIN A PERIOD. AGREEMENT HAS BEEN REACHED WITH THE FUND MISSION ON CONFIDENTIAL

THIS SPECTRUM OF POLICIES. WE EXPECT THAT THE PROGRAM WOULD BE SUPPORTED BY THE USE OF FUND RESOURCES UNDER THE EXTENDED FUND FAILITY AND THE SUPPLEMENTARY CREDIT FACILITY. I AM CONFIDENT THAT THE PROGRAM WOULD ENCHANCE INVESTMENT INCENTIVES IN THE ECONOMY AND STIMULATE ECONOMIC GROWTH.

7. IT IS, IN OTHER WORDS, THE INTENTION OF MY GOVERNMENT TO ESTABLISH A MORE LIBERAL ECONOMIC FRAMEWORK IN SRI LANKA IN WHICH SEVERAL OF THE DISINCENTIVES TO EFFORT, RISK TAKING, SAVINGS, AND INVESTMENT, HITHERTO ASSOCIATED WITH QUANTITATIVE CONTROLS ON ECONOMIC TRANSACTIONS WILL CEASE TO EXIST. AS AN ESSENTIAL FIRST STEP A STRONG MONETARY POLICY HAS ALREADY BEEN INTRODUCED AIMED BOTH AT RAISING THE RATE OF SAVINGS AND CURBING INFLATIONARY PRESSURES. WE WILL ALSO BE TAKING EFFECTIVESTEPS TO CREATE A CLIMATE CONDUCIVE TO PRODUCTIVE INVESTMENT IN BOTH PUBLIC ANDPRIVATE SECTORS WITH A PARTICULAR EMPHASIS ON EXPORT ORIENTED FOREIGN PRIVATE INVESTMENT. THE NECESSARY GUARANTEES AND INCENTIVES WILL BE SECURED BY LEGISLATION, WITHIN OF COURSE A FRAMEWORK OF NATIONAL PRIORITIES.

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C O N F I D E N T I A L SECTION 2 OF 2 COLOMBO 3326

8. MY GOVERNMENT WILL ENDEAVOUR TO ACCOMPLISH THIS TRANS-
FORMATION TOWARDS A LIBERAL ECONOMY WHILE AT THE SAME TIME
PRESERVING THE BEST ELEMENTS OF SRI LANKA'S TRADITIONAL
COMMITMENT TOWARDS MEETING BASIC HUMAN NEEDS AND HUMAN AS-
PIRATIONS, A POLICY COMBINGING RAPID GROWTH WITH SOCIAL
JUSTICE. SRI LANKA AS YOU ARE AWARE HAS PURSUED POLICIES
WHICH HAVE, OVER THE YEARS, RESULTED IN AVERAGE LEVELS OF LIFE'S
EXPECTANCY, LITERACY, AND INFANT MORTALITY WHICH COMPARE VERY
FAVOURABLY WITH THOSE OF MANY DEVELOPED COUNTRIES WITH SEVERAL
TIMES HER PER CAPITA GNP. CONCEALED WITHIN THESE AVERAGES,
HOWEVER, IS A SIGNIFICANT DETERIORATION PARTICULARLY SINCE
1973 IN THESE STANDARDS, AFFECTING CERTAIN POPULOUS PARTS
OF THE ISLAND. MY GOVERNMENT WILL THEREFORE ALSO BE LOOKING
TO THE WORLD BANK AND THE AID GROUP TO ENSURE THAT THE ECONOMIC
PROGRAMS WE INTEND LAUNCHING CONTAINS A SUFFICIENT DEGREE OF
ESSENTIALLY BRIDGING SUPPORT TO GUARANTEE THE MINIMUM BASIC
NEEDS OF THE ABSOLUTE AND LARGELY UNEMPLOYED POOR WITHOUT IM-
PAIRING WORK INCENTIVES, DURING THE INTERIM PERIOD THAT MUST
ELAPSE BEFORE THE NEW POLICIES BEGIN TO YIELD TANGIBLE RESULTS
IN TERMS OF GROWTH AND EMPLOYMENT.

9. SRI LANKA'S NEGOTIATIONS WITH THE FUND ARE, AS YOU ARE
AWARE, A NECESSARY PRELIMINARY TO OUR DISCUSSIONS WITH THE WORLD
BANK AND EMBERS OF THE AID GROUP. WHILE I AM APPRECIATIVE OF
THE SUPPORT EXTENDED TO SRI LANKA BY YOUR COUNTRY OVER THE
LAST SEVERAL YEARS, I REALIZE ALSO THAT THERE HAVE BEEN CER-
TAIN CONSTRAINTS TO ENHANCED ASSISTANCE ON A SCALE MORE COM-
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MENSURATE WITH OUR NEEDS. THESE HAVE STEMMED ESSENTIALLY FROM
UNDERSTANDABLE DOUBTS CONCERNING THE NATURE OF SRI LANKA'S

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DOMESTIC ECONOMIC POLICY FRAMEWORK AND ITS PAST BIAS AWAY FROM INVESTMENT TOWARD CONSUMPTION. IT IS MY CONVICTION THAT THE DISCUSSIONS WE HAVE JUST CONCLUDED WITH THE FUND, AND THE DIALOGUE WHICH MY FINANCE MININSTER WILL INITIATE ON BEHALF OF MY GOVERNMENT WITH THE WORLD BANK DURING THE FORTHCOMING ANNUAL MEETINGS IN WASHINGTON, WILL HAVE THE EFFECT OF DISPELLING THESE DOUBTS. I LOOK FORWARD, THEREFORE, TO A PERIOD OF FURTHER FRUITFUL CO-OPERATION BOTH WITH THESE INSTITUTIONS AND WITH YOUR COUNTRY. SRI LANKA HAS HAD CLOSE AND FRIENDLY RELATIONS WITH YOUR COUNTRY SINCE INDEPENDENCE AND I AM CONFIDENT THAT, BOTH WITH YOUR HELP AND WITH THE PACKAGE OF DOMESTIC POLICIES THAT WILL NOW BE SET IN TRAIN, MY COUNTRY WILL BE ABLE TO SURMOUNT SEVERAL OF ITS URGENT ECONOMIC PROBLEMS.

10. MY MINISTER OF FINANCE HAS REVIEWED WITH YOUR AMBASSADOR IN SRI LANKA CERTAIN OF THE OUTSTANDING ISSUES ARISING OUT OF OUR BILATERAL AID RELATIONSHIP IN THE PAST. I HAVE DIRECTED THAT IMMEDIATE ACTION BE TAKEN TO RESOLVE THESE. I AM NOW ENGAGED IN THE PROCESS OF REORGANIZING THE INSTITUTIONAL FRAMEWORK FOR ECONOMIC DECISION MAKING IN SRI LANKA SO AS TO GENERATE AS SPEEDILY AS POSSIBLE A PORTFOLIO OF VIABLE PROJECTS, PROPERLY EVALUATED, OF POTENTIAL INTEREST FOR EXTERNAL FINANCING BOTH BY YOUR COUNTRY, OTHER MEMBERS OF THE SRI LANKA AID GROUP AND THE WORLD BANK AND HENCE REDUCED OVER A PERIOD THE DEGREE OF OUR DEPENDENCE ON COMMODITY OR PROGRAM AID. SINCE SUCH A PROCESS INVARIABLY TAKES A NEW GOVERNMENT A LITTLE TIME TO ACCOMPLISH, I TRUST THAT YOUR COUNTRY WILL, IN THE MEANWHILE, FIND IT POSSIBLE AS A MEMBER OF THE AID GROUP TO PROVIDE ENHANCED LEVELS OR SUPPORT FOR SRI LANKA'S EFFORTS TOWARD ACHIEVING BOTH A STRUCTURAL CHANGE IN ITS BALANCE OF
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PAYMENTS AND MORE RAPID DEVELOPMENT, ON THE BASIS OF THE UNDERSTANDINGS ALREADY ARRIVED AT WITH THE FUND AND WHICH I AM CONFIDENT WILL RECEIVE THE FULLEST SUPPORT FROM THE BANK.
YOURS SINCERELY, (J.R. JAYEWARDENE).
END TEXT.
WRIGGINS

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